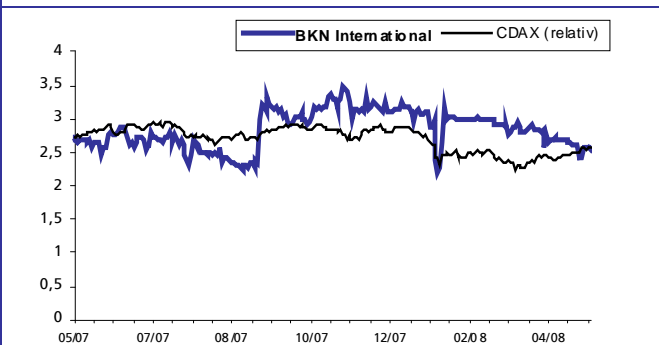


**Hold** **Risk:** **Price target:** **EUR 2.60**  
(old: Hold) high (old: EUR 3.35)

**Solid H1 figures, PT reduced due to higher investments – remains a Hold**

Bloomberg: BKQ GY Price: EUR 2.54  
Reuters: BKQG.DE CDAX: 630,92  
ISIN: DE0005290704  
Internet: www.bknkids.com  
Segment: General Standard  
Branche: Entertainment/Media



Share data: Bloomberg 08.05.2008 / Closing price

High / Low 52 W: EUR 3.90 / EUR 2.00  
Market cap.: EUR 49.28 m  
No. of shares: 19.4 m

Shareholders:

Free float	27.6%
Charleville Investments	19.4%
Gordon Group Holding LLC	16.2%
Allianz Global Investors	8.9%
Michael Jack Kugler	8.2%
Credit Agricole	7.0%
Allen Bohbot	6.8%
Dalton	6.2%
Carmignac	4.2%
Cominvest	3.1%
DWS	2.9%

**Analysis: SES Research**

**Date of publication:** 09.05.2008  
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On May 8, 2008, BKN released figures for H1 2008, which were below sales estimates but in-line with regard to EBIT.

BKN International H1 2008				
in EUR m	H1 2008	H1 2008e	H1 2007	change yoy
<b>Sales</b>	<b>8.2</b>	<b>10.0</b>	<b>7.6</b>	<b>8.5%</b>
<b>EBITDA</b>	<b>6.1</b>	<b>6.7</b>	<b>4.2</b>	<b>45.5%</b>
<i>in % of sales</i>	<i>74.6%</i>	<i>67.0%</i>	<i>55.6%</i>	
<b>EBIT</b>	<b>3.7</b>	<b>3.7</b>	<b>2.7</b>	<b>37.5%</b>
<i>in % of sales</i>	<i>44.5%</i>	<i>37.0%</i>	<i>35.2%</i>	
<b>Net</b>	<b>2.4</b>	<b>2.7</b>	<b>1.9</b>	<b>27.5%</b>

Source: BKN International, SES Research

Sales rose 8.5% yoy despite a negative currency effect of EUR 0.3 m (50% of sales are in US dollars). Split into segments:

- **television** sales increased 12% to EUR 4.1 m, driven by the titles Scruff (EUR 1.2 m) and Dork Hunters (EUR 1.1 m)
- sales of **consumer brands** rose 6% to EUR 4.1 m. Main contributor was Dork Hunters with EUR 1.5 m in revenues

The strong increase in EBIT underlines the scalability of BKN's business model. Clearly, once a film is produced, additional license revenues from television stations and consumer brands come at a low cost. Furthermore, the bottom-line benefitted from

- a EUR 0.4 m drop in **producer fees** as last year's figure was burdened by advertising cost for the title Legend of the Dragon
- **lower salaries and employee benefits**, which decreased due to a positive currency effect of approx. EUR 0.2 m (workers employed in the NYC studio)
- a EUR 0.5 m decrease in **other expenses** due to the discontinuation of last year's one-off (issue of a convertible bond)

These cost savings more than compensated for higher depreciation, which rose by approx. 60% or EUR 0.9 m yoy. Depreciation looks set to climb further as 70% of the anticipated revenues for the titles Dork Hunters and Zorro (EUR 7 m for each) will have to be amortised over the next three years.

Despite the lower than expected sales in H1, outlook for H2 is positive and based on HD-quality titles Pocket Penguins and Stone Age coming on-stream in autumn 2008. These will contribute approx. EUR 4 m to sales in 2008 and boost the EBIT-margin disproportionately as HD-quality films are rare and high in demand, which sets the stage for price premiums.

However, as the current investment cycle is not in the favour of investors given an expected negative free cash flow until 2010

...and maintenance capex eating up the EBITDA during the same period, BKN remains a HOLD. The new PT of EUR 2.60 is based on an updated DCF-model adjusted for higher programme investments.

Fiscal year ending	09/07	09/08e	09/09e	09/010e
Per Share figures in EUR, other figures in EURm, price: EUR 2.54				
<b>Sales</b>	16.3	20.2	22.6	25.1
<b>Gross margin</b>	100.8%	99.6%	98.6%	97.3%
<b>EBITDA</b>	9.1	12.0	13.4	14.8
<b>EBITDA-margin</b>	55.8%	59.3%	59.5%	59.2%
<b>EBIT</b>	6.9	6.9	7.2	8.0
<b>EBIT-margin</b>	42.4%	34.2%	32.0%	31.6%
<b>Net Income</b>	5.0	5.0	5.1	5.9
<b>EpS</b>	0.26	0.25	0.26	0.30
<b>DPS</b>	0.00	0.00	0.00	0.09
<b>Dividend Yield</b>	0.0%	0.0%	0.0%	3.5%
<b>EV/Sales</b>	3.98	3.21	2.86	2.58
<b>EV/EBITDA</b>	7.12	5.41	4.81	4.36
<b>EV/EBIT</b>	9.37	9.39	8.95	8.11
<b>PER</b>	9.77	10.16	9.77	8.47
<b>ROCE</b>	11.4%	10.2%	9.4%	9.7%
<b>Adj. Free Cash Flow Yield</b>	4.8%	6.1%	8.4%	10.6%

## Key figures (BKN International)

P&L (EUR m)	2006	2007e	2008e	2009e	Price Data	
Sales	12.6	16.3	20.2	22.6	Share Price (EUR)	2.54
Total Sales	13.9	18.0	22.2	24.8	Market Cap. (EUR m)	49
COGS	1.0	1.6	2.1	2.6	Enterprise Value (EUR m)	65
Gross Profit	12.9	16.4	20.1	22.3		
Personnel Expenses	3.0	3.1	3.4	3.6	<b>Share Key Data</b>	<b>2006</b> <b>2007e</b> <b>2008e</b> <b>2009e</b>
Other Operating Expenses	3.7	4.2	4.7	5.3	Earnings per Share (EUR)	0.29 0.26 0.25 0.26
EBITDA	6.2	9.1	12.0	13.4	Sales per Share (EUR)	0.80 0.84 1.03 1.15
Depreciation and Amortisation	1.4	2.2	5.1	6.2	Free Cash Flow per Share (EUR)	-0.48 -0.65 -0.21 -0.13
- thereof Goodwill Amortisation	0.0	0.0	0.0	0.0	Dividend per Share (EUR)	0.00 0.00 0.00 0.00
EBIT	4.7	6.9	6.9	7.2	<b>Valuation Key Data</b>	<b>2006</b> <b>2007e</b> <b>2008e</b> <b>2009e</b>
Financial Result	-0.6	-1.4	-0.9	-0.8	P/E	8.88 9.82 9.97 9.68
Extraordinary Result	0.0	0.0	0.0	0.0	P/Sales	3.17 3.03 2.47 2.20
EBT	4.1	5.5	6.0	6.4	EV/Sales	5.13 3.98 3.21 2.86
Taxes	-0.4	0.5	1.0	1.3	EV/EBITDA	10.48 7.12 5.41 4.81
Net Profit before Minorities	4.5	5.0	5.0	5.1	EV/EBIT	13.64 9.37 9.39 8.95
Net Profit	4.5	5.0	5.0	5.1	P/Book	1.72 1.18 1.06 0.95
Dividend Payout	0.0	0.0	0.0	0.0	Dividend Yield	0.0% 0.0% 0.0% 0.0%
<b>Cash-Flow</b>	<b>2006</b>	<b>2007e</b>	<b>2008e</b>	<b>2009e</b>	<b>No. of shares (million)</b>	<b>2006</b> <b>2007e</b> <b>2008e</b> <b>2009e</b>
Cash Flow from Operations	5.9	7.2	10.1	11.4	Ordinary shares out	15.72 19.40 19.59 19.59
Free Cash Flow	-7.6	-12.6	-4.0	-2.6		
Capex	14.5	19.2	13.7	13.7		
<b>Balance sheet (EUR m)</b>	<b>2006</b>	<b>2007e</b>	<b>2008e</b>	<b>2009e</b>	<b>Profitability</b>	<b>2006</b> <b>2007e</b> <b>2008e</b> <b>2009e</b>
Fixed Assets	0.1	0.1	0.1	0.1	EBITDA-margin	49.0% 55.8% 59.3% 59.5%
Intangible Assets	36.6	53.7	62.3	69.7	EBIT-margin	37.6% 42.4% 34.2% 32.0%
Net Working Capital	0.3	1.6	2.0	2.3	EBT-margin	32.7% 33.6% 29.7% 28.5%
Current Assets	7.1	7.9	6.4	8.1	Net Profit-margin	35.6% 30.9% 24.7% 22.7%
Cash and Cash Equivalents	1.6	2.2	0.1	1.5	ROE	15.7% 12.0% 10.7% 9.9%
Equity	28.6	41.7	46.7	51.8	ROA	12.5% 10.4% 9.5% 9.0%
Provisions	1.0	1.2	1.2	1.2	ROCE	11.2% 11.4% 10.2% 9.4%
Financial Liabilities	12.6	17.6	19.5	23.5		
Net Cash	-11.0	-15.4	-19.4	-22.0	<b>Company profile</b>	
Total	43.8	61.7	68.8	78.0	BKN develops and markets animated entertainment programmes for children. Furthermore, the company has an own film library consisting of titles for children entertainment at its disposal. Based on this catalogue of rights BKN licences merchandising rights for consumer products. BKN is marketing the broadcasting and merchandising rights on a worldwide scale.	
Reporting standard	IFRS	IFRS	IFRS	IFRS		
Fiscal year ending	30.09.2006	30.09.2007	30.09.2008	30.09.2009		
<b>Growth rates</b>	<b>2006</b>	<b>2007e</b>	<b>2008e</b>	<b>2009e</b>	<b>Management</b>	
Sales	5.4%	29.0%	24.0%	12.0%	Allen Bohbot (CEO), Wayne Mowat (CFO)	
EBITDA	5.1%	47.2%	31.6%	12.5%		
EBIT	48.4%	45.5%	-0.2%	4.9%		
EBT	38.6%	32.8%	9.5%	7.5%		
Net profit	4.8%	11.7%	-0.6%	3.0%		
Dividend	n.a.	n.a.	n.a.	n.a.		
<b>Cost intensities</b>	<b>2006</b>	<b>2007e</b>	<b>2008e</b>	<b>2009e</b>	<b>Shareholders</b>	
COGS / Sales	7.8%	9.7%	10.5%	11.3%	Free Float	27.60%
Personnel Expenses / Sales	23.7%	18.9%	17.0%	15.8%	Charleville Investments	19.40%
					Gordon Group Holding LLC	16.20%
					Allianz Global Investors	8.90%
					Jack Kugler	8.20%
					Credit Agricole	7.00%
					Allen Bohbot	6.80%
<b>Segments</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>		

Source: Company (reported figures), SES Research (estimates and key figures), Bloomberg (share data)

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